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HOUSE BILL 2942 By  
McKee

SENATE BILL 3004  
By Cooper J

AN ACT to amend Tennessee Code Annotated, Title 67, relative to  
the Retailer Sales Tax Act.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 67-6-102(2), is amended by deleting  
the language therein in its entirety and substituting instead the following:

"Business" includes any activity engaged in by any person, or caused to be  
engaged in by such person, with the object of gain, benefit, or advantage, either direct or  
indirect. "Business" includes occasional and isolated sales and transactions involving  
the transfer of aircraft, vessels, or motor vehicles between corporations or other  
business entities and their members or stockholders. "Business" includes transactions  
caused by the merger, consolidation, or reorganization of corporations or other business  
entities. "Business" also includes occasional and isolated sales or transactions of  
aircraft, vessels, or motor vehicles between partnerships and the partners thereof and  
transfers between separate partnerships. Sales or transactions involving aircraft based  
in this state shall be presumed to be made and taxable in this state; and any registration  
reflecting such aircraft which are so based shall constitute evidence thereof; "Business"

does not include occasional and isolated sales or transactions by a person not regularly engaged in business, or the occasional and isolated sale at retail or use of services sold by, or purchased from, a person not regularly engaged in business as a vendor of taxable services, or from one who is such a vendor but is not normally a vendor with respect to the services sold or purchased in such occasional or isolated transaction;

SECTION 2. Tennessee Code Annotated, Title 67, Chapter 6, Part 3, is amended by adding the following new section:

Section \_\_\_\_\_. There is exempt from the tax levied by this chapter:

(1) Any sale or use of any article, manufactured of the produce of this state exempt from taxation pursuant to Section 30 of Article II of the Constitution of Tennessee; and

(2) Any sale or use which would otherwise be taxable pursuant to the provisions of this chapter but which would impose a tax which is invalid either under the commerce clause or the due process clause of the Constitution of the United States.

SECTION 3. Tennessee Code Annotated, Section 67-6-102, is amended by adding the following new subdivisions:

( ) "Medical services" means any service obtained at, or through, a hospital, nursing home, or from any health care practitioner required to be licensed under Title 63, except veterinarians, athletic trainers, and electrologists.

( ) "Service" means all activities engaged in for other persons for a consideration, other than medical services, when the primary objective of the purchaser is the receipt of the benefit (if any) of the activity performed, as distinguished from the receipt of property. In determining what is a service, the intended use or stated objective of the contracting parties shall not necessarily be controlling.

SECTION 4. Tennessee Code Annotated, Section 67-6-102(24), is amended by deleting subdivisions (E) and (H) in their entirety, and is further amended by deleting subdivision (F) in its entirety and substituting instead the following:

(F)

(i) "Retail sale," "sale at retail" and "retail sales price" includes any service, and such service is subject to tax under this chapter, when that service is performed in Tennessee for a consideration. It is the legislative intent that all services performed in Tennessee be subject to sales tax unless specifically exempted in this chapter.

(ii) With respect to services, other than telecommunication services, such services shall be considered to be performed in Tennessee if:

(a) Performed completely in Tennessee; or

(b) Performed partially in Tennessee and partially outside of Tennessee, when the recipient or user of the service is located in Tennessee; or

(c) Performed partially in Tennessee and partially outside of Tennessee, if the recipient or user of the service is not located in Tennessee, but only to the extent of those services actually performed in Tennessee; or

(d) The place of performance cannot be determined, if the recipient or user of the service is located in Tennessee.

(iii) With respect to services, other than telecommunication services, such services performed partially in Tennessee and partially outside of Tennessee shall be presumed to have been performed completely in Tennessee unless the taxpayer can show the place of performance by clear and cogent evidence.

(iv) With respect to interstate telecommunication services, only those charges for interstate telecommunications which are originated or received in this state and which are billed or charged to a service address in Tennessee shall be subject to tax;

SECTION 5. Tennessee Code Annotated, Section 67-6-102, is amended:

(a) In subdivision (9), by deleting from the first sentence the language "the retail price of which, for any such single article, exceeds two hundred fifty dollars (\$250)," and by deleting from the fourth sentence the language ", the retail price of which exceeds two hundred fifty dollars (\$250)".

(b) In subdivision (13)(B), is amended by deleting the language ", the cost of which, for any such single article, exceeds one thousand dollars (\$1,000),".

(c) In subdivision (24)(D), is amended by deleting the language "and each sale is in excess of five hundred dollars (\$500)" and the language "for sales in excess of five hundred dollars (\$500)".

SECTION 6. Tennessee Code Annotated, Section 67-6-102, is amended by deleting subdivision (D) of paragraph (30) in its entirety and substituting instead the following: "Telecommunications" does not include television programming or television services delivered by a provider of direct-to-home satellite service.

SECTION 7. Tennessee Code Annotated, Section 67-6-205, is amended by adding the following new subsection:

( ) The crediting provisions of Sections 67-6-313(f) and 67-6-507(a) are specifically made applicable to the services described in Section 67-6-102(24)(F)(i), when all or part of the performance of those services takes place outside of Tennessee.

SECTION 8. Tennessee Code Annotated, Section 67-6-103, is amended by deleting subsection (f).

SECTION 9. Tennessee Code Annotated, Title 67, Chapter 6, Part 2, is amended by adding the following new section:

Section \_\_\_\_\_. Notwithstanding any other provision of law to the contrary, a portion of the revenue in an amount equal to one-half percent (0.5%) generated from any sale or use which is taxed at the rate of the tax levied on the sale of tangible personal property at retail by the provisions of §67-6-202 shall continue to be dedicated for education purposes until changed by the general assembly. All revenue generated from such portion of the sales tax rate shall be deposited in the education trust fund and earmarked for education purposes as provided in §49-3-357.

SECTION 10. Tennessee Code Annotated, Section 67-6-202(a), is amended by deleting the language “at the rate of six percent (6%) of” and by substituting instead the language “at the rate of three and seven tenths percent (3.7%)”.

Tennessee Code Annotated, Section 67-6-202, is further amended by deleting subsection (b) in its entirety.

SECTION 11. Tennessee Code Annotated, Section 67-6-203(a), is amended by deleting the language “six percent (6%)” and by substituting instead the language “the tax levied on the sale of tangible personal property at retail by the provisions of §67-6-202”.

Tennessee Code Annotated, Section 67-6-203, is further amended by deleting subsection (c) in its entirety.

SECTION 12. Tennessee Code Annotated, Section 67-6-204, is amended by deleting the language “six percent (6%)” wherever it appears and by substituting instead the language “the tax levied on the sale of tangible personal property at retail by the provisions of §67-6-202”.

Tennessee Code Annotated, Section 67-6-204, is further amended by deleting subsection (d) in its entirety.

SECTION 13. Tennessee Code Annotated, Section 67-6-205(a), is amended by deleting the language “six percent (6%)” and by substituting instead the language “the tax levied on the sale of tangible personal property at retail by the provisions of §67-6-202”.

Tennessee Code Annotated, Section 67-6-205, is further amended by deleting subsection (b) in its entirety.

SECTION 14. Tennessee Code Annotated, Sections 67-6-206 and 67-6-207, are amended by deleting the sections in their entirety.

SECTION 15. Tennessee Code Annotated, Section 67-6-209, is amended by deleting the language therein in its entirety and substituting instead the following:

(a) Where a manufacturer, producer, compounder or contractor erects or applies tangible personal property, which the manufacturer, producer, compounder or contractor has manufactured, produced, compounded or severed from the earth, such person so using the tangible personal property shall pay the tax herein levied on the fair market value of such tangible personal property when used, without any deductions whatsoever; provided, that the foregoing shall not be construed to apply to contractors or subcontractors who fabricate, erect or apply tangible personal property which becomes a component part of a building, and which is not sold by them as a manufactured item.

(b) Where a contractor or subcontractor hereinafter defined as a dealer uses tangible personal property in the performance of the contract, or to fulfill contract or subcontract obligations, whether the title to such property be in the contractor, subcontractor, contractee, subcontractee, or any other person, or whether the title holder of such property would be subject to pay the sales or use tax, such contractor or subcontractor shall pay a tax at the rate prescribed by Section 67-6-203 measured by the purchase price of such property, unless such property has been previously subjected to a sales or use tax, and the tax due thereon has been paid.

(c) The tax imposed by this section shall have no application where the contractor or subcontractor, and the purpose for which such tangible personal property is used, would be exempt from the sales or use tax under any other provision of this chapter. However, the transfer of tangible personal property by a contractor who contracts for the installation of such tangible personal property as an improvement to realty does not constitute a sale, except as provided in Section 67-6-102(8).

SECTION 16. Tennessee Code Annotated, Title 67, Chapter 6, Part 2, is amended by deleting Sections 67-6-216, 67-6-217, 67-6-218, 67-6-219, 67-6-221, 67-6-224, 67-6-225(b), 67-6-226 and 67-6-227 in their entirety.

SECTION 17. Tennessee Code Annotated, Section 67-6-301 is amended by deleting the language therein in its entirety and substituting instead the following:

The tax imposed by this chapter shall not apply to the direct product of the soil in the hands of the producer, and his immediate vendee.

SECTION 18. Tennessee Code Annotated, Title 67, Chapter 6, Part 3, is amended by adding the following as a new section:

Exempt from the tax imposed by this chapter are services performed by bona fide employees for their employers, to the extent their compensation is in the form of salary, commissions, or other compensation traditionally and normally provided to bona fide employees. Whether or not a person is a bona fide employee shall be determined based on the totality of the circumstances. Factors to be considered include, but are not limited to, whether the person paying the compensation reports employee compensation to the internal revenue service, whether the alleged employee is covered under workers compensation laws, and whether the employer pays payroll taxes on account of its employment of the alleged employee.

SECTION 19. Tennessee Code Annotated, Title 67, Chapter 6, Part 3, is amended by deleting Sections 67-6-302, 67-6-303, 67-6-305, 67-6-307, 67-6-309, 67-6-310, and 67-6-311, in their entirety.

SECTION 20. Tennessee Code Annotated, Section 67-6-313, is amended by deleting subsections (b) through (j) in their entirety.

SECTION 21. Tennessee Code Annotated, Title 67, Chapter 6, Part 3, is amended by deleting Sections 67-6-321, 67-6-322, 67-6-325, 67-6-327, and 67-6-328 in their entirety.

SECTION 22. Tennessee Code Annotated, Section 67-6-329, is amended by deleting the language therein in its entirety and substituting instead the following:

(a) The sale at retail, the use, the consumption, the distribution and the storage for use or consumption in this state of the following tangible personal property is specifically exempted from the tax imposed by this chapter:

(1) "Gasoline" as defined by statute in Tennessee, upon which a privilege tax per gallon is paid, and not refunded, except that pre-mixed engine fuel containing gasoline and oil, produced for use in two-cycle engines and not for use in the propulsion of an aircraft, vessel or any other vehicle, that is sold in containers of one (1) gallon or less, is not exempt from the tax imposed by this chapter.

(2) Motor vehicle fuel now taxed per gallon by Chapter 3, Part 13 of this title;

(b) No provision of this section shall be construed to amend or repeal the provisions of Section 67-6-301.

SECTION 23. Tennessee Code Annotated, Title 67, Chapter 6, Part 3, is amended by deleting Sections 67-6-330, 67-6-331, 67-6-332, 67-6-333, 67-6-334, 67-6-336, 67-6-339, 67-6-340, 67-6-342, 67-6-344, 67-6-346, 67-6-347, 67-6-348, 67-6-349, 67-6-350, 67-6-351, 67-6-354, 67-6-355, and 67-6-356 in their entirety.



SECTION 24. Tennessee Code Annotated, Title 67, Chapter 6, Part 5, is amended by deleting Sections 67-6-528, 67-6-529, and 67-6-530 in their entirety.

SECTION 25. Tennessee Code Annotated, Section 67-6-201, is amended by adding a new subdivision, as follows:

(9) Provides or engages in one or more of the following services:

(A) Accounting and auditing;

(B) Amusements;

(C) Business services:

(i) Advertising,

(ii) Building services,

(iii) Computer and data processing,

(iv) Credit report and collection,

(v ) Detective and protective services,

(vi) Finance – Securities Brokers,

(vii) Insurance agents,

(viii) Mail, art reproduction and steno,

(ix) Management consulting or public relations,

(x ) Personnel supply,

(xi) Real estate agents,

(xii) Other business services;

(D) Construction services;

(E) Education, for-profit and nonprofit;

(F) Energy:

(i) Manufacturing,

(ii) Residential;

(G) Engineers, architectural, surveying;

- (H) Gasoline and diesel fuel;
- (I ) Governmental contracts;
- (J) Industrial and farm machinery;
- (K) Legal services;
- (L) Newspapers and publications;
- (M) Nonprofit:
  - (i) Amusements/member organizations,
  - (ii) Social services,
  - (iii) Other research, testing, consulting;
- (N) Personal services:
  - (i) Beauty and barber shops,
  - (ii) Coin-operated laundry,
  - (iii) Funeral,
  - (iv) Veterinary and landscape,
  - (v) Other;
- (O) Social and other services (day care, etc.)
- (P) Transportation services.

Provided, however, that services taxable pursuant to this subdivision, shall be a taxable privilege for state purposes only and shall not be permitted to be taxed under the provisions of the Local Option Revenue Act, Tennessee Code Annotated, Title 67, Chapter 7, Part 7.

SECTION 26. This act shall take effect thirty (30) days after becoming a law, the public welfare requiring it.